



Business & Industry (B&I) Guaranteed Loan Program

Program Goal

Encourage the commercial financing of rural businesses, thereby:

- * creating and saving rural jobs
- * improving the economic and environmental climate of rural communities

☞ *The B&I program is lender-driven. USDA guarantees the loan rather than lending directly.*

A commercial lender requests the B&I guarantee, and, if approved, it makes (and services) the loan.

Type of Assistance

Federal guarantee for lenders on their rural business loans:

80% (maximum) guarantee on loans up to \$5 million

70% (maximum) guarantee on loans from \$5-10 million

Lender Benefits

There is an active secondary market for B&I guarantees (e.g., Farmer Mac II and SBA markets)

The guaranteed portion of the loan is protected against loss by a Federal guarantee.

The guaranteed portion of the loan does not count against lending limits.

B&I guarantees help lenders satisfy Community Reinvestment Act (CRA) requirements.

Lenders use their own forms, loan documents, and security instruments.

Size of Loans

No minimum, but typically above the “SBA Express” maximum (\$350,000). Up to \$10 million.

Interest Rate, Term, Payment Structure, and Fees

Rate: Lender’s customary commercial interest rate – negotiated by lender & business
Fixed or variable (but may not vary more often than quarterly)

Term: Working capital – 7 years maximum
Equipment – 15 years maximum (not to exceed useful life of collateral)
Real estate – 30 years maximum (not to exceed useful life of collateral)

Structure: Balloons are not permitted. Reduced payments may be scheduled in the first 3 years.

Fees: Lender’s reasonable and customary fees okay -- negotiated by lender & business
USDA charges a one-time guarantee fee equal to 2% of the guaranteed amount

Authorized Loan Purposes

Real estate, buildings, leasehold improvements, equipment, inventory, working capital.

Loan fees & costs (including B&I guarantee fee), professional services, and feasibility study costs.

Loan Limitations

Lines of credit cannot be guaranteed.

Construction projects:

A B&I guarantee may be issued before construction if the lender certifies that the development work will be completed in accordance with the plans and specifications.

The percent of guarantee may be reduced if the guarantee is issued before project completion.

Construction loan funds should not be advanced until USDA has approved the project.

Debt refinancing:

The refinancing must create new jobs or secure existing jobs (e.g., by improving cash flow).

If a lender wishes to refinance a loan already in their portfolio, this must be a secondary purpose (less than 50% of loan) & the loan must have been current for at least 12 months.

Transfers of ownership: Acquisitions are only eligible if they create new jobs or prevent job loss.

Commercial lease projects (retail centers, office buildings, industrial facilities, etc.):

No owner-occupancy required, but must have enough committed tenants to break even.

New developments and renovation projects are eligible. Transfer of ownership and debt

refinancing projects are normally not eligible because these have no demonstrable jobs benefit.

Community facility projects may be guaranteed provided the financing is not tax-exempt.

Lender Eligibility

Any Federal or State chartered bank; Farm Credit System; Bank of Cooperatives; Savings & Loan or Building & Loan Association; bank-holding company's mortgage company; credit union; or insurance company – subject to government credit examination and in good standing
Other lenders with commercial lending experience and financial strength may also be approved.
Lender's officers/directors/owners may not have a substantial financial interest in the borrower.

Borrower Eligibility

Most types of enterprises qualify – manufacturing, wholesale, retail, service – new or existing.
Project must be in a rural area – beyond any 50,000+ population city and its urbanized periphery.
Proprietorships, partnerships, corporations, LLC's, coops, trusts, nonprofits, tribes, public bodies
Majority ownership must be held by US citizens or permanent residents.
Any ownership by government or military employees must be less than 20%.

Ineligible businesses:

Owner-occupied and rental housing projects (Housing site development may be eligible.)
Golf courses, racetracks, and gambling facilities
Lending, investment, and insurance companies
Projects involving more than \$1 million *and* the relocation of 50 or more jobs

Production agriculture:

Eligible only if the farm is vertically-integrated, ineligible for FSA farm loan guarantees, & the agricultural production part of the loan is secondary (less than 50% *and* less than \$1 million).
Nursery, forestry, & aquaculture operations are eligible without these restrictions.

Underwriting and Security Requirements

The proposed operation must have realistic repayment ability.
New enterprises may be asked to obtain a feasibility study by a recognized independent consultant.
The business and its owners must have a good credit history.
The business must have tangible balance sheet equity position at loan closing/project completion of:
10% or more (for existing businesses)
20% or more (for new businesses)
There must be adequate collateral:
Real estate – using 80% or less of the appraised value
Chattels – using 60-80% or less of the appraised value
Accounts receivable (<90 days) – using 60% or less
Inventory – using 60% or less of the value
Hazard insurance on collateral (*lesser of* loan amount *or* depreciated replacement value)
Key person life insurance may be required (decreasing term OK) – amount negotiated
Personal/corporate guaranties – normally from all proprietors, partners (except limited partners), or major shareholders (i.e., all those with a 20%-or-greater interest)
Inability to get credit elsewhere is NOT a requirement.

Application Process

Lender & business submit a *joint* preapplication to USDA, indicating a willingness to make the loan provided a B&I guarantee is approved.
USDA meets with all parties at the project site and makes a preliminary determination of project acceptability, normally within 15 days.
Lender & business submit their complete application, after which approval takes less than 60 days.
USDA issues a conditional commitment, approving the guarantee subject to conditions.
Loans up to \$5 million are approved locally; larger ones are approved in Washington, D.C.
The lender closes the loan and, after meeting USDA's conditions, requests the guarantee.
USDA issues the guarantee after verifying that all conditions have been met.

More information at: <http://www.rurdev.usda.gov/or/gbi.htm> or contact:

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